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IRS Releases the Dirty Dozen Tax Scams for 2013

IRS YouTube Video

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IR-2013-33, March 26, 2013

WASHINGTON — The Internal Revenue Service today issued its annual "Dirty Dozen" list of tax scams, reminding taxpayers to use caution during tax season to protect themselves against a wide range of schemes ranging from identity theft to return preparer fraud.

The Dirty Dozen listing, compiled by the IRS each year, lists a variety of common scams taxpayers can encounter at any point during the year. But many of these schemes peak during filing season as people prepare their tax returns.

"This tax season, the IRS has stepped up its efforts to protect taxpayers from a wide range of schemes, including moving aggressively to combat identity theft and refund fraud," said IRS Acting Commissioner Steven T. Miller. "The Dirty Dozen list shows that scams come in many forms during filing season. Don't let a scam artist steal from you or talk you into doing something you will regret later."

Illegal scams can lead to significant penalties and interest and possible criminal prosecution. IRS Criminal Investigation works closely with the Department of Justice (DOJ) to shutdown scams and prosecute the criminals behind them.

The following are the Dirty Dozen tax scams for 2013:

Identity Theft

Tax fraud through the use of identity theft tops this year's Dirty Dozen list. Identity theft occurs when someone uses your personal information such as your name, Social Security number (SSN) or other identifying information, without your permission, to commit fraud or other crimes. In many cases, an identity thief uses a legitimate taxpayer's identity to fraudulently file a tax return and claim a refund.

Combating identity theft and refund fraud is a top priority for the IRS, and we are taking special steps to assist victims. For the 2013 tax season, the IRS has put in place a number of additional steps to prevent identity theft and detect refund fraud before it occurs. We have dramatically enhanced our systems, and we are committed to continuing to improve our prevention, detection and assistance efforts.

The IRS has a comprehensive and aggressive identity theft strategy employing a three-pronged effort focusing on fraud prevention, early detection and victim assistance. We are continually reviewing our processes and policies to ensure that we are doing everything possible to minimize identity theft incidents, to help those victimized by it and to investigate those who are committing the crimes.

The IRS continues to increase its efforts against refund fraud, which includes identity theft. During 2012, the IRS prevented the issuance of \$20 billion of fraudulent refunds, including those related to identity theft, compared with \$14 billion in 2011.

This January, the IRS also conducted a coordinated and highly successful identity theft enforcement sweep. The coast-to-coast effort against identity theft suspects led to 734 enforcement actions in January, including 298 indictments, informations, complaints and arrests. The effort comes on top of a growing identity theft effort that led to 2,400 other enforcement actions against identity thieves during fiscal year 2012. The Criminal Investigation unit has devoted more than 500,000 staff-hours to fighting this issue.

We know identity theft is a frustrating and complex process for victims. The IRS has 3,000 people working on identity theft related cases — more than double the number in late 2011. And we have trained 35,000 employees who work with taxpayers to help with identity theft situations.

The IRS has a [special section](#) on IRS.gov dedicated to identity theft issues, including YouTube videos, tips for taxpayers and an assistance guide. For victims, the information includes how to contact the IRS Identity Protection Specialized Unit. For other taxpayers, there are tips on how taxpayers can protect themselves against identity theft.

Taxpayers who believe they are at risk of identity theft due to lost or stolen personal information should contact the IRS immediately so the agency can take action to secure their tax account. Taxpayers can call the IRS Identity Protection Specialized Unit at 800-908-4490. More information can be found on the [special identity protection page](#).

Phishing

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Phishing is a scam typically carried out with the help of unsolicited email or a fake website that poses as a legitimate site to lure in potential victims and prompt them to provide valuable personal and financial information. Armed with this information, a criminal can commit identity theft or financial theft.

If you receive an unsolicited email that appears to be from either the IRS or an organization closely linked to the IRS, such as the Electronic Federal Tax Payment System (EFTPS), report it by sending it to phishing@irs.gov.

It is important to keep in mind the IRS does not initiate contact with taxpayers by email to request personal or financial information. This includes any type of electronic communication, such as text messages and social media channels. The IRS has information that can help you protect yourself from email scams.

Return Preparer Fraud

About 60 percent of taxpayers will use tax professionals this year to prepare their tax returns. Most return preparers provide honest service to their clients. But some unscrupulous preparers prey on unsuspecting taxpayers, and the result can be refund fraud or identity theft.

It is important to choose carefully when hiring an individual or firm to prepare your return. This year, the IRS wants to remind all taxpayers that they should use only preparers who sign the returns they prepare and enter their IRS Preparer Tax Identification Numbers (PTINs).

The IRS also has created a new web page to assist taxpayers. For tips about choosing a preparer, red flags, details on preparer qualifications and information on how and when to make a complaint, visit www.irs.gov/chooseataxpro.

Remember: Taxpayers are legally responsible for what's on their tax return even if it is prepared by someone else. Make sure the preparer you hire is up to the task.

IRS.gov has [general information](#) on reporting tax fraud. More specifically, report abusive tax preparers to the IRS on Form 14157, Complaint: Tax Return Preparer. Download Form 14157 and fill it out or order by mail at 800-TAX FORM (800-829-3676). The form includes a return address.

Hiding Income Offshore

Over the years, numerous individuals have been identified as evading U.S. taxes by hiding income in offshore banks, brokerage accounts or nominee entities, using debit cards, credit cards or wire transfers to access the funds. Others have employed foreign trusts, employee-leasing schemes, private annuities or insurance plans for the same purpose.

The IRS uses information gained from its investigations to pursue taxpayers with undeclared accounts, as well as the banks and bankers suspected of helping clients hide their assets overseas. The IRS works closely with the Department of Justice (DOJ) to prosecute tax evasion cases.

While there are legitimate reasons for maintaining financial accounts abroad, there are reporting requirements that need to be fulfilled. U.S. taxpayers who maintain such accounts and who do not comply with reporting and disclosure requirements are breaking the law and risk significant penalties and fines, as well as the possibility of criminal prosecution.

Since 2009, 38,000 individuals have come forward voluntarily to disclose their foreign financial accounts, taking advantage of special opportunities to comply with the U.S. tax system and resolve their tax obligations. And, with new foreign account reporting requirements being phased in over the next few years, hiding income offshore will become increasingly more difficult.

At the beginning of 2012, the IRS reopened the Offshore Voluntary Disclosure Program (OVDP) following continued strong interest from taxpayers and tax practitioners after the closure of the 2011 and 2009 programs. The IRS continues working on a wide range of international tax issues and follows ongoing efforts with DOJ to pursue criminal prosecution of international tax evasion. This program will be open for an indefinite period until otherwise announced.

The IRS has collected \$5.5 billion so far from people who participated in offshore voluntary disclosure programs since 2009.

"Free Money" from the IRS & Tax Scams Involving Social Security

Flyers and advertisements for free money from the IRS, suggesting that the taxpayer can file a tax return with little or no documentation, have been appearing in community churches around the country. These schemes promise refunds to people who have little or no income and normally don't have a tax filing requirement – and are also often spread by word of mouth as unsuspecting and well-intentioned people tell their friends and relatives.

Scammers prey on low income individuals and the elderly and members of church congregations with bogus promises of free money. They build false hopes and charge people good money for bad advice including encouraging taxpayers to make fictitious claims for refunds or rebates based on false statements of entitlement to tax credits. For example, some promoters claim they can obtain for their victims, often senior citizens, a tax refund or nonexistent stimulus payment based on the American Opportunity Tax Credit, even if the victim was not enrolled in or paying for college. Con artists also falsely claim that refunds are available even if the victim went to school decades ago. In the end, the victims discover their claims are rejected. Meanwhile, the promoters are long gone. The IRS warns all taxpayers to remain vigilant.

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There are also a number of tax scams involving Social Security. For example, scammers have been known to lure the unsuspecting with promises of non-existent Social Security refunds or rebates. In another situation, a taxpayer may really be due a credit or refund but uses inflated information to complete the return.

Beware: Intentional mistakes of this kind can result in a \$5,000 penalty.

Impersonation of Charitable Organizations

Another long-standing type of abuse or fraud is scams that occur in the wake of significant natural disasters.

Following major disasters, it's common for scam artists to impersonate charities to get money or private information from well-intentioned taxpayers. Scam artists can use a variety of tactics. Some scammers operating bogus charities may contact people by telephone or email to solicit money or financial information. They may even directly contact disaster victims and claim to be working for or on behalf of the IRS to help the victims file casualty loss claims and get tax refunds.

They may attempt to get personal financial information or Social Security numbers that can be used to steal the victims' identities or financial resources. Bogus websites may solicit funds for disaster victims. As in the case of a recent disaster, Hurricane Sandy, the IRS cautions both victims of natural disasters and people wishing to make charitable donations to avoid scam artists by following these tips:

- To help disaster victims, donate to recognized charities.
- Be wary of charities with names that are similar to familiar or nationally known organizations. Some phony charities use names or websites that sound or look like those of respected, legitimate organizations. IRS.gov has a search feature, Exempt Organizations [Select Check](#), which allows people to find legitimate, qualified charities to which donations may be tax-deductible.
- Don't give out personal financial information, such as Social Security numbers or credit card and bank account numbers and passwords, to anyone who solicits a contribution from you. Scam artists may use this information to steal your identity and money.
- Don't give or send cash. For security and tax record purposes, contribute by check or credit card or another way that provides documentation of the gift.

Call the IRS toll-free disaster assistance telephone number (1-866-562-5227) if you are a disaster victim with specific questions about tax relief or disaster related tax issues.

False/Inflated Income and Expenses

Including income that was never earned, either as wages or as self-employment income in order to maximize refundable credits, is another popular scam. Claiming income you did not earn or expenses you did not pay in order to secure larger refundable credits such as the Earned Income Tax Credit could have serious repercussions. This could result in repaying the erroneous refunds, including interest and penalties, and in some cases, even prosecution.

Additionally, some taxpayers are filing excessive claims for the fuel tax credit. Farmers and other taxpayers who use fuel for off-highway business purposes may be eligible for the fuel tax credit. But other individuals have claimed the tax credit although they were not eligible. Fraud involving the fuel tax credit is considered a frivolous tax claim and can result in a penalty of \$5,000.

False Form 1099 Refund Claims

In some cases, individuals have made refund claims based on the bogus theory that the federal government maintains secret accounts for U.S. citizens and that taxpayers can gain access to the accounts by issuing 1099-OID forms to the IRS. In this ongoing scam, the perpetrator files a fake information return, such as a Form 1099 Original Issue Discount (OID), to justify a false refund claim on a corresponding tax return.

Don't fall prey to people who encourage you to claim deductions or credits to which you are not entitled or willingly allow others to use your information to file false returns. If you are a party to such schemes, you could be liable for financial penalties or even face criminal prosecution.

Frivolous Arguments

Promoters of frivolous schemes encourage taxpayers to make unreasonable and outlandish claims to avoid paying the taxes they owe. The IRS has a [list](#) of frivolous tax arguments that taxpayers should avoid. These arguments are false and have been thrown out of court. While taxpayers have the right to contest their tax liabilities in court, no one has the right to disobey the law.

Falsely Claiming Zero Wages

Filing a phony information return is an illegal way to lower the amount of taxes an individual owes. Typically, a Form 4852 (Substitute Form W-2) or a "corrected" Form 1099 is used as a way to improperly reduce taxable income to zero. The taxpayer may also submit a statement rebutting wages and taxes reported by a payer to the IRS.

Sometimes, fraudsters even include an explanation on their Form 4852 that cites statutory language on the definition of wages or may include some reference to a paying company that refuses to issue a corrected Form W-2 for fear of IRS retaliation. Taxpayers should resist any temptation to participate in any variations of this scheme. Filing this type of return may result in a \$5,000 penalty.

Disguised Corporate Ownership

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Third parties are improperly used to request employer identification numbers and form corporations that obscure the true ownership of the business.

These entities can be used to underreport income, claim fictitious deductions, avoid filing tax returns, participate in listed transactions and facilitate money laundering and financial crimes. The IRS is working with state authorities to identify these entities and bring the owners into compliance with the law.

Misuse of Trusts

For years, unscrupulous promoters have urged taxpayers to transfer assets into trusts. While there are legitimate uses of trusts in tax and estate planning, some highly questionable transactions promise reduction of income subject to tax, deductions for personal expenses and reduced estate or gift taxes. Such trusts rarely deliver the tax benefits promised and are used primarily as a means of avoiding income tax liability and hiding assets from creditors, including the IRS.

IRS personnel have seen an increase in the improper use of private annuity trusts and foreign trusts to shift income and deduct personal expenses. As with other arrangements, taxpayers should seek the advice of a trusted professional before entering a trust arrangement.

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